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Chase Hit With Wave Of Suits Over Sudden Changes To Loans

By Rebecca Beyer

Over the last few years, Margaret Conley took out two loans totaling \$20,000 from Chase Bank USA with the understanding that her minimum monthly payment would be fixed at two percent of her loan balance until it was paid off.

Instead, in January, the California resident noticed her minimum monthly payment had been increased to \$867, an amount equivalent to 5 percent of her remaining loan balance, from \$353. If she wanted to keep the lower payments, she needed to agree to higher interest rates. Conley began paying the higher minimum payments, eroding her savings.

Conley is not alone. Delaware-based Chase began informing customers of the changes in their minimum monthly payments in November, as the credit crunch that began earlier in the year intensified. But according to a series of lawsuits filed against the company and consolidated in San Francisco federal court, Chase did not disclose that it could make the changes at the time it offered the loans. *In Re: Chase Bank USA, N.A. "Check Loan" Contract Litigation*, 09-2032 (N.D. Calif., 2009).

"Talk about blowing a hole in the family budget," said Barry R. Himmelstein, whose firm Lief, Cabraser, Heimann & Bernstein is liaison counsel for plaintiffs, including Conley, in the litigation. "For many people, the monthly minimum payment increased by more than \$1,000. There's no way for people to adjust to something like that."

By failing to disclose that it could reduce the time period of the loans by increasing the minimum monthly payment, Chase breached its loan agreement and its implied covenant of good faith with its customers, the suits allege. In November 2008, Chase also informed customers of a \$10 monthly fee on the loans, but in March it terminated that fee and refunded customers for the charges incurred. According to media reports about the changes, as many as 1 million customers may have received the notices.

Julia B. Strickland, of Stroock & Stroock & Lavan in Los Angeles, represents Chase. She declined to comment. A company spokeswoman also declined comment on the pending litigation.

"What's happened is, Chase is changing the rules after the fact, and people are finding themselves in a position where the minimum monthly payment has increased significantly," said San Francisco attorney Eric H. Gibbs, who also represents plaintiffs in the case. "People are scrambling to try to make those payments."

Gibbs's firm Girard Gibbs is on the plaintiffs' executive committee overseeing the lawsuits. Since January, 32 cases have been filed against Chase over the term changes in federal courts across the country. The cases were consolidated in multi-district litigation proceedings before U.S. District Judge Maxine M. Chesney of San Francisco. A status conference in the cases is scheduled for tomorrow.

In a joint case management statement filed this week, Chase denied wrongdoing. The company's attorneys wrote that the promotional offers related to the loans did not "promise any specific method of calculating the monthly minimum payment requirement or otherwise limit Chase's right to modify account terms, as explained in the Cardmember Agreement."

The company also argued it was doing a good thing for consumers. Its attorneys wrote that an increase in minimum payments is in line with federal policy to "reduce overall levels of consumer credit card debt." Having people pay less in finance charges because they pay their debts down more quickly is a goal of legislation passed by Congress this year, the company argued.

But Himmelstein said card members who signed onto the loans thought they were doing so under fixed terms. He said even the cardmember agreement Chase refers to is not specific about the changes.

"They basically deprived people of the benefit of their bargain by jacking up the monthly payment," he said.

Lauren E. Willis, a consumer law professor at Loyola Law School in Los Angeles, said although higher minimum payments are in general a good thing for consumers, "changing the rules of the game midway through the game is a problem."

"If they just wanted to extend a little more credit, they could have just extended more credit on the credit card," Willis said of Chase. "The only reason to do it this way is to trick people."

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